

VZCZCXRO3599
RR RUEHNZ
DE RUEHWL #0344/01 1240635
ZNR UUUUU ZZH
R 040635Z MAY 06
FM AMEMBASSY WELLINGTON
TO RUEHC/SECSTATE WASHDC 2751
INFO RUEHBY/AMEMBASSY CANBERRA 4391
RUEHNZ/AMCONSUL AUCKLAND 0737
RUEHDN/AMCONSUL SYDNEY 0438
RUCPDOG/USDOC WASHDC 0045

UNCLAS SECTION 01 OF 02 WELLINGTON 000344

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EB/CIP AND EAP/ANP FOR DRICCI
STATE PASS TO USTR FOR BWEISEL
COMMERCE FOR 4530/ITA/MAC/AP/OSAO/ARI BENAISSA
COMMERCE FOR 6920/ITA/OTEC/MYLES DENNY-BROWN
SYDNEY FOR CS

E.O. 12958: N/A
TAGS: [ECPS](#) [ECON](#) [ETRD](#) [NZ](#)
SUBJECT: NEW ZEALAND TO ORDER LOCAL LOOP UNBUNDLING

REF: A. WELLINGTON 230

[1](#)B. 2004 WELLINGTON 428
[1](#)C. 2004 WELLINGTON 66

[1](#)1. (U) Summary: The New Zealand government announced May 3 that it would compel Telecom Corp., the country's former state monopoly, to open its fixed-line telephone service to competition. New Zealand has been one of only two OECD countries that had not mandated unbundling of the local loop. The decision aims to improve New Zealand's dismal record on broadband access, which has been a reason cited by U.S. businesses for not increasing their investment in the country. The move is considered the biggest shakeup of the New Zealand telecommunications sector since Telecom was privatized in 1990. End summary.

[1](#)2. (U) The decision by Cabinet, which must be approved by Parliament, would give competitors access to Telecom's copper network and allow them to provide alternative phone and Internet services to any land-line customer. The resulting competition would be expected to spur lower prices for telephone services and increase broadband access in the country. New Zealand's broadband uptake ranks at 22 out of 30 OECD countries, at 6.4 percent of households. Prices for mobile, residential and business telephone services in New Zealand are significantly higher than the average for other OECD countries.

[1](#)3. (U) Under the government's plan, the rates that Telecom charges Internet service providers would be regulated. Telecom also would have to offer competitors access to the fastest speeds available on its network. Telephone services would be separated from broadband services, allowing competing providers to sell one and not the other if they choose. Telecom also would be required to separate accounting of its wholesale and retail businesses, to ensure that any cross-subsidization is disclosed.

[1](#)4. (U) The announcement followed a government review of the telecommunications sector that began in December 2005. The Cabinet on May 3 approved the proposed legislation to unbundle the local loop, which Communications Minister Cunliffe said he expected to be introduced soon in Parliament. Approval is expected by the end of the year, with implementation of the law beginning in 2007.

[1](#)5. (U) The government will continue to look into other measures to improve the country's broadband performance,

including the possible structural separation of Telecom's retail and lines operations.

¶6. (SBU) The decision indicates the government is finally fed up with Telecom, after waiting years for the utility's promises to voluntarily improve broadband access and prices to bear fruit. Telecom also had used its status as the country's largest listed company as a threat, warning that regulation would cause both its profitability and its share price to suffer, along with the value of government pension funds that are heavily invested in the company. Telecom is by far the largest publicly traded company headquartered in New Zealand and is the only New Zealand business in the Fortune 2000 list of major global firms.

¶7. (SBU) As recently as May 2004, the Cabinet disregarded the advice of the Ministry of Economic Development and then Communications Minister Swain to unbundle the local loop (ref B). The Cabinet's decision against unbundling also preserved a bargaining chip that could be used in possible free-trade negotiations with the United States, which New Zealand officials quietly concede are now less likely. The government in 2004 instead required that Telecom provide its rivals with a basic high-speed Internet service and took the threat of unbundling off the table so long as Telecom met certain targets. The company reached the goal of having 250,000 residential broadband customers by the end of 2005, but failed to meet the goal of having one-third of those customers served through non-Telecom providers. Instead, only 22 percent of such customers came through the wholesale channel.

¶8. (U) The government had intended to showcase the telecommunications announcement during its annual budget release on May 18. However, news of the Cabinet's decision

WELLINGTON 00000344 002 OF 002

was leaked to Telecom within hours of the decision. So, the government made the decision public soon after Telecom called Minister Cunliffe and told him it had the Cabinet paper. The announcement delivered on one of Telecom's dire predictions: Telecom's stock price dived 7 percent in after-hours trading in Australia. It continued its decline May 4, falling 9 percent since its May 3 close to NZ \$5.06 (US \$3.24) a share in New Zealand.

¶9. (U) As expected, Telecom -- which controls 92 percent of the country's broadband connections -- lashed out at the decision, saying it would not boost broadband use and uptake and would put its investment in its copper network at risk. On the other hand, TelstraClear, a subsidiary of Telstra Corp. of Australia and Telecom's land-line rival in New Zealand, implied that the decision could prompt it to increase its investment in New Zealand.

¶10. (SBU) Comment: The government has come under increasing pressure to boost investment in the country's aging infrastructure, including telecommunications, roads and energy. With the economy slowing after six years of significant growth, the government also is seeking ways to strengthen and diversify the economy away from agriculture-based commodities. Increasing its broadband performance and stepping up competition in the telecommunications sector should help. Also, by resolving the unbundling issue at this time, the New Zealand government is acknowledging that it no longer can afford to hold on to this bargaining chip for the uncertain possibility of free-trade negotiations with us in the future (ref A).
McCormick